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SUBJECT: ITALY'S TRADE AND INVESTMENT WITH CHINA

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SUMMARY

¶1. (U) Trade and investment between Italy and China will reach record levels in 2006, likely surpassing 2005's 18.7 billion euro in trade. The countries made a concerted effort to increase bilateral trade and investment in 2006, including the largest-ever Italian trade delegation to China and concluding agreements to stimulate investment and joint ventures. Bilateral trade and cooperation will likely increase if a three-way agreement routing Chinese export to Europe through the Suez canal and southern Italian ports is finalized. End Summary.

ITALY-CHINA TRADE

¶2. (U) Italian imports from China have doubled since 2000, and Italian exports to China have also risen sharply. China is Italy's fourth largest trading partner, providing 4.6 percent of imports.

Italy-China Trade Figures (billions of euro)
(Source: Italian Statistical Agency (ISTAT))

	IMPORTS	EXPORTS
2000	7.0	2.4
2001	7.5	3.3
2002	8.3	4.0
2003	9.6	3.9
2004	11.8	4.5
2005	14.1	4.6
2006*	13.3	4.1

*Provisional figures for January - September 2006

¶3. (U) Italian exports to China are comprised primarily of metals, textiles, petroleum and related products, machinery and equipment, scientific and process control instruments, and road vehicles. Exports of plastics, inorganic chemicals, and other chemical materials and products have increased considerably in the past year.

¶4. (U) Almost all categories of Chinese exports to Italy have increased from their 2005 levels. Manufactured goods, such as leather, apparel, clothing accessories, footwear, gold, photographic equipment, and miscellaneous manufactured articles had especially large increases. Many of these goods are counterfeit and labeled "Made in Italy." Many are also

indistinguishable from the originals. These pirated goods are a cause of negative reactions among many Italians who resent the growing Chinese presence.

PRODI DELEGATION VISITS CHINA
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¶5. (U) Italian PM Romano Prodi led a delegation of government officials and over 700 business leaders on a six-day visit to China in September 2006 (reftel). This was the first high-level delegation to visit China since 2004. The delegation traveled to Nanjing, Guangzhou, Shanghai, Tianjin, and ended in Beijing. Throughout his visit, Prodi sought to conclude trade agreements through meetings with Chinese officials. During Prodi's visit to the port city of Tianjin, trade representatives signed agreements on seven cooperation programs worth 192 million dollars. Prodi also attended the China-Italy Small and Medium Enterprise fair, where over 4,000 Chinese and 760 Italian companies displayed their products and services. Roughly 90 percent of Italian companies are SME's.

ITALY-CHINA-EGYPT SHIPPING AGREEMENT
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¶6. (U) Italy, China, and Egypt are negotiating a three-way agreement to route Chinese exports to Europe through the Suez Canal and making southern Italy the main entry point for Chinese exports to Europe. Italian PM Romano Prodi discussed the issue in Cairo with Egyptian Trade and Industry Minister Rachid Mohamed Rachid in December, and also with officials in Beijing in November. When implemented, the agreement will

help create jobs in the South, Italy's poorest region, and will further increase Italian trade with China.

ITALIAN INVESTMENT IN CHINA
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¶7. (U) Cooperation between Italian and Chinese companies grew in 2006, especially among larger enterprises. As of September 2006, there were 1,428 Italian companies operating in China. The following are among the most notable developments in 2006.

Heavy Industry

¶8. (U) In July 2006, Fiat subsidiary Iveco and Shanghai Auto agreed on a 50/50 joint venture worth 300 million dollars to produce heavy-duty trucks in Chongqing. At full production capacity the joint venture will have an annual production capacity of 40,000 heavy-duty trucks and 30,000 engines by ¶2008. Also in heavy industry, Italian firm Globeco entered into a venture with a Chinese state-owned company to produce 150 pollution cleaning vessels in the Changsha Shipyard in Hunan. The initial production is valued at 75 to 100 million euro.

Financial Services

¶9. (U) PM Prodi and Chinese PM Wen Jibao agreed to the creation of a 225 million euro private equity fund by Italian Intesa San Paolo IMI, China Development Bank, and China Exim Bank. The fund, Mandarin Capital Partners, will pursue ventures between medium-sized Chinese and Italian companies providing 25 million euro capitalization for each company. Separately, Assicurazioni Generali established the Generali China Life Insurance Company with capital worth 168 million euro, and obtained permission in 2006 to begin operating in the non-life insurance sector.

Textiles

¶10. (U) In the textiles sector, Italian Montefibre joined with Jilin Qifeng Chemical Fiber in a 160 million dollar joint venture to produce acrylic fiber.

Electronics

¶11. (U) Eurotech Group signed an agreement with the government-owned Shaanxi Baocheng Aviation Instrument Co. to produce two million euro of computers annually. The Sacmi Group began operations at a new plant in Nanhai dedicated to producing machines and spare parts for the ceramic industry.

Retail

¶12. (U) Versace has five outlets in China and has announced plans to open nine additional stores at a cost of eight million euro, while Benetton is preparing to open 200 stores in China by 2008.

CHINESE INVESTMENT IN ITALY
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¶13. (U) Chinese investment in Italy remains relatively small. In 2005, Chinese investment in Italy totaled 102 million dollars, sixteen percent of the 640 million dollars Italian businesses invested in China in that year. Higher production costs and a complicated bureaucracy have deterred Chinese investment. In 2006, the Anhui Jinghuai Automobile Group opened a research and development center in Turin, which employs Italian researchers dedicated to designing new vehicles.

¶14. (U) In May of 2006, 30 Chinese entrepreneurs visited Milan to explore investment opportunities in the textile, fashion, auto components and financial sectors. Italian and Chinese trade commissions signed a memorandum of understanding in November to promote cooperation of SME's in the two countries. The memo includes organizing seminars, business delegations, exhibitions and expositions, and

corporate training.

EU ANTI-DUMPING MEASURES
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¶15. (U) On October 4th, 2006, the EU approved controversial measures to impose anti-dumping measures against shoes imported from China. Italy lobbied aggressively for tariffs of 16.5 percent which will now be levied on Chinese leather shoe imports for two years. The EU claims European footwear production has fallen by 30 percent causing a loss of 40,000 jobs in the sector. Chinese leather shoe exports to the EU increased by 450 percent from 2004-2005, totaling 206 million pairs.

COMMENT
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¶16. (U) Italian businesses attitudes towards China, and Chinese competition, are slowly evolving. From the earlier knee-jerk protectionism that manifested itself in the EU's anti-dumping measures, Italian attitudes seem to be shifting to an "if you can't beat them, join them" position. Italian businesses, especially ones most susceptible to competition from low-cost Chinese labor, are establishing a manufacturing and retailing presence in China in an effort to take advantage of low labor costs and sell luxury brand goods to China's growing middle class. The transshipment agreement between China, Egypt, and Italy is another case in which the Italian government, recognizing that Chinese imports are here to stay, is trying to ensure that Italy extracts whatever

benefit it can from the growing quantity of Chinese goods
exported to the EU. End comment.
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